

Message Text

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SUBJECT: PAY POLICY - THE PAST, THE PRESENT AND THE
FUTURE

REF: LONDON 5486

SUMMARY: WITH THE CURRENT WAGE ROUND NOW APPROACHING
ITS CONCLUSION, THE GOVERNMENT IS CONFIDENT THAT THE
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LEVEL OF EARNINGS INCREASE OVER THE YEAR WILL WORK OUT
AT SOME 14 PERCENT. THIS IS SEEN AS A VICTORY FOR THE
CURRENT POLICY AND AN ADEQUATE BASIS TO BEGIN TUC-
GOVERNMENT DISCUSSIONS ABOUT THE FUTURE. DESPITE
CRITICISM FROM THE SCOTTISH AND WELSH DELEGATE CONFER-
ENCES, THE TUC IS PROCEEDING WITH THESE MEETINGS, AND
THERE IS APPARENT CONFIDENCE BY THE GENERAL SECRETARY

THAT SOME FORM OF ACCOMMODATION OVER PAY CAN BE FOUND FOR THE COMING YEAR. THERE IS LITTLE PROBABILITY THAT THIS "DEAL" WILL INVOLVE THE TUC IN A COMMITMENT TO A PARTICULAR LEVEL OF SETTLEMENTS, BUT THE FEELING IS THAT IT WILL BE SUFFICIENT TO MAINTAIN THE 12-MONTH GAP BETWEEN SETTLEMENTS, ALONG WITH AN EXTENSION OF THIS YEAR'S REFUSAL TO SUPPORT THOSE GROUPS WHO ATTEMPT TO FLOUT THE GOVERNMENT'S GUIDELINES. A FAIRLY LOW PUBLIC PROFILE IS LIKELY TO BE KEPT UNTIL THE UNION CONFERENCE SEASON IS OUT OF THE WAY AND THE LEADERSHIP IS ABLE TO ESTIMATE THE STRENGTH OF FEELING WITHIN INDIVIDUAL UNIONS. AN ATTEMPT BY THE GOVERNMENT TO KEEP EARNINGS DOWN TO AN AVERAGE INCREASE OF AROUND SEVEN PERCENT DURING THE YEAR BEGINNING AUGUST 1 WILL PROBABLY RECEIVE AT LEAST THE COVERT SUPPORT OF THE TUC GENERAL COUNCIL. END SUMMARY.

1. WITH THE CURRENT WAGE ROUND NINE MONTHS OLD, THERE IS GROWING CONFIDENCE THAT THE GOVERNMENT WILL OBTAIN A SATISFACTORY RESULT IN TERMS OF ITS AIM OF LIMITING THE INCREASE IN AVERAGE EARNINGS TO TEN PERCENT. THERE IS LITTLE POSSIBILITY THAT THIS ACTUAL TARGET WILL BE REACHED, BUT PRIOR EXPERIENCE INDICATES THAT A RESULT SOME THREE PERCENT ABOVE THE TARGET MAY BE NORMAL, EVEN WHEN THE POLICY WINS VIRTUALLY UNIVERSAL ADHERENCE. IN ADDITION TO A FEW EXCEPTIONS TO THE TEN PERCENT LIMITED OFFICIAL USE

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LIMIT, THE IMPACT OF PRODUCTIVITY DEALS IN THE CURRENT WAGE ROUND BRINGS UP THE OVERALL INCREASE.

2. OFFICIAL STATISTICS COVERING SOME 12 MILLION WORKERS AFFECTED BY MAJOR COLLECTIVE AGREEMENTS SUGGEST THAT 50 PERCENT HAVE NOW SUCCESSFULLY INCLUDED THEIR NEGOTIATIONS FOR THE CURRENT WAGE ROUND. RECENT SETTLEMENTS, COVERING CIVIL SERVANTS, CONSTRUCTION WORKERS, AIRLINE PILOTS AND SOME PUBLIC SECTOR EMPLOYEES IN THE NATIONAL HEALTH SERVICE AND THE POST OFFICE, HAVE PRODUCED SATISFACTORY RESULTS WITHOUT THREATENING GOVERNMENT POLICY. MOST IMPORTANT FOR THE GOVERNMENT WAS THE NEWS (APRIL 27) THAT ELECTRICITY SUPPLY WORKERS HAVE ACCEPTED A DEAL WITHIN THE GUIDELINES. SOME OF THESE SETTLEMENTS HAVE CONTAINED PRODUCTIVITY PAY ELEMENTS BUT ALL APPEAR TO HAVE PASSED THE INCREASINGLY INTENSE SCRUTINY OF THE DEPARTMENT OF EMPLOYMENT. A FURTHER SETTLEMENT THAT HAS BEEN WON BY THE RAILWAYMEN HAS REMOVED ONE OF THE FEW REMAINING POSSIBILITIES OF DISRUPTIVE ACTION IN THE CURRENT ROUND.

3. ACCORDING TO THE FIGURES PUBLISHED BY THE DEPARTMENT

OF EMPLOYMENT, AVERAGE EARNINGS ROSE BY 8.4 PERCENT IN THE SEVEN MONTHS FROM AUGUST 1977. ON A SIMPLE ARITHMETIC BASIS THIS WOULD SUGGEST THAT OVER THE 12-MONTH PERIOD OF PHASE III, AN INCREASE OF 14.4 PERCENT COULD BE EXPECTED. THIS, HOWEVER, IGNORES THE FACT THAT THE

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MINOR SETTLEMENTS THAT ARE STILL OUTSTANDING ARE LESS LIKELY TO EXCEED THE GUIDELINES THAN THE MORE DIFFICULT NEGOTIATIONS ALREADY COMPLETED. TAKING THIS INTO ACCOUNT, THE OUTCOME OF THE CURRENT ROUND COULD BE IN LINE WITH THE EXPERIENCE OF PREVIOUS YEARS AND PRODUCE AN AVERAGE EARNINGS INCREASE SOME THREE PERCENT ABOVE THE GOVERNMENT TARGET. EVEN IF THE RESULT PROVES TO

BE AROUND 14 PERCENT, THE GOVERNMENT WILL BE SATISFIED.

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4. SUCH RESULTS, TOGETHER WITH THE REDUCTION IN THE RATE OF INCREASE IN RETAIL PRICES AND THE CHANCELLOR'S TAX-CUTTING BUDGETS OF OCTOBER 1977 AND APRIL 1978, WILL MEAN THAT REAL EARNINGS WILL BE INCREASING MORE QUICKLY OVER THE REMAINDER OF THE PAY ROUND. FOR THIS REASON, THE ATMOSPHERE IS MORE FAVORABLE FOR DISCREET TALKS BETWEEN THE GOVERNMENT AND THE TUC CONCERNING, AMONG OTHER THINGS, INCREASE IN THE AVERAGE LEVEL OF EARNINGS THAT CAN BE TOLERATED IN THE (PHASE IV) YEAR FROM AUGUST 1978. WHEN THE GOVERNMENT TRIED TO INITIATE SUCH DISCUSSIONS EARLIER IN THE YEAR, THE TUC STRONGLY RESISTED ON THE GROUNDS THAT IT WOULD THREATEN THE REMAINING NEGOTIATIONS OF THE CURRENT ROUND. MOREOVER, GENERAL COUNCIL MEMBERS HAVE PLEADED WITH THE GOVERNMENT NOT TO COMMIT ITSELF TO A SPECIFIC PAY NORM FIGURE, AT LEAST UNTIL AFTER THE UNION CONFERENCE SEASON IS OVER TOWARDS THE END OF JULY. THEY FEAR A FIGURE WOULD PROVIDE A TARGET FOR ATTACKS ON THE GOVERNMENT AND THE CONCEPT OF PAY POLICY GENERALLY. IN ANY EVENT, WHILE TUC LEADERS REMAIN CAUTIOUS, THE OUTLOOK HAS BECOME MORE POSITIVE, DESPITE THE FACT THAT BOTH THE SCOTTISH AND THE WELSH TUCS HAVE REJECTED THE NOTION OF ANY PAY DEAL. THE MOTIONS CARRIED AT THESE REGIONAL MEETINGS, WHICH ARE NOT BINDING ON THE TUC AS A WHOLE, ALSO REJECTED THE IDEA OF TALKS BETWEEN TUC LEADERS AND MINISTERS CONCERNING PAY POLICY. THESE INJUNCTIONS DO NOT APPEAR TO HAVE INHIBITED PRIVATE DINNER DISCUSSIONS ON PAY POLICY AND OTHER MATTERS BETWEEN TUC GENERAL COUNCIL MEMBERS AND MINISTERS RESPONSIBLE FOR ECONOMIC AND INDUSTRIAL AFFAIRS.

5. THE PRIME MINISTER CONTINUED THE PROCESS OF DEFINING THE GOVERNMENT'S ATTITUDE TOWARD FURTHER
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INCOMES POLICY IN A MAY 1 ADDRESS TO THE ANNUAL CONFERENCE OF THE MODERATE WHITE COLLAR UNION (APEX). A TREASURY OFFICIAL COMMENTED TO US THAT THE KEY ELEMENT IN THE ADDRESS WAS CALLAGHAN'S STATEMENT THAT "IT IS NOW INEVITABLE THAT THE GOVERNMENT -- ANY GOVERNMENT -- MUST HAVE DIRECT DISCUSSIONS WITH THE TRADE UNION MOVEMENT ABOUT THE FUTURE OF PAY EACH YEAR." THIS IS THE

STRONGEST HINT TO DATE OF THE GOVERNMENT'S HOPE FOR A "PERMANENT" INCOMES POLICY MECHANISM GIVEN THE GOVERNMENT'S DOMINANT POSITION AS AN EMPLOYER. WITH REGARD TO THE IMMEDIATE FUTURE, CALLAGHAN SPOKE OF A "SUFFICIENT MARGIN" IN THE COMING PAY ROUND FOR DEALING WITH ANOMALIES AND WIDENING PAY DIFFERENTIALS. THIS WAS VIEWED BY THE PRESS AS AN INDICATION OF A MORE FLEXIBLE ATTITUDE ON THE PART OF HMG THAN HAS BEEN APPARENT IN PREVIOUS ROUNDS. WHILE HE WAS CAREFUL TO AVOID ANY REFERENCE TO A SPECIFIC PAY NORM, THE PRIME MINISTER DID SAY THAT SEVEN AND ONE-HALF OR EIGHT PERCENT WOULD BE TOO HIGH.

6. THE PROBLEMS FACED BY TUC REPRESENTATIVES IN DISCUSSIONS WITH GOVERNMENT HAVE NOT BEEN REMOVED. THERE IS STILL WIDESPREAD REJECTION OF INCOMES POLICY FROM THE LOCAL AND REGIONAL OFFICERS OF THE TRADE UNION MOVEMENT -- THOUGH SOME TRADE UNION LEADERS ARE CONFIDENT THAT THE VOTES ON THE GENERAL COUNCIL ARE AVAILABLE TO SUPPORT "A JOINT ECONOMIC AND SOCIAL STRATEGY" (MURRAY'S WORDS) WITH A LABOR GOVERNMENT. SUCH A "STRATEGY" APPEARS ALSO TO BE THE PUBLIC AIM OF THE GOVERNMENT, ACCORDING TO THE PRIME MINISTER'S MAY 1 SPEECH. TUC LEADERS BELIEVE THEY COULD DRAW SUPPORT FROM A PERVASIVE FEAR IN THE TRADE UNIONS OF THE ELECTION OF A THATCHER GOVERNMENT. MOREOVER, THEY HAVE NO DESIRE TO SEE THE TUC OPT OUT OF ITS NATIONAL RESPONSIBILITY TO REPRESENT THE INTEREST OF ORGANIZED LABOR AND BECOME AN OUTSIDER IN POLICYMAKING. THE REAL DANGER LIMITED OFFICIAL USE

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FOR THE GENERAL COUNCIL LIES IN BECOMING PARTY TO GOVERNMENT POLICIES THAT ARE FLOUTED BY SOME AFFILIATED NEGOTIATORS. GIVEN THESE INTERNAL PRESSURES, SHOULD THE GOVERNMENT SEEK TO ESTABLISH A GUIDELINE OF SOMETHING LIKE A SEVEN PERCENT RISE IN EARNINGS FOR THE 1978-79 PAY ROUND, THE TRADE UNION RESPONSE IS STILL UNSURE.

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7. THE EARLIER DEMANDS FOR "FREE COLLECTIVE BARGAINING"
FROM, AMONG OTHERS, MOSS EVANS (T&GWU GENERAL SECRETARY)
ARE BEING TONED DOWN TO EXPRESSIONS OF OPPOSITION TO A
RIGID WAGE NORM AND COMBINED WITH CALLS FOR "RESPONSIBLE"
BARGAINING, A POSTURE SIMILAR TO THE POLICY ADOPTED BY
THE WQOUU CONGRESS. THIS KIND OF FORMULA MAY PRODUCE
THE LEVEL OF SETTLEMENT THAT THE GOVERNMENT WISHES TO
SEE WITHOUT THE DIFFICULT PROBLEMS OF A FORMAL POLICY.
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PROSPECTS FOR CONTINUED, EFFECTIVE COOPERATION BETWEEN
GOVERNMENT AND TUC RECEIVED A BOOST WITH THE MAY 2
ANNOUNCEMENT THAT MODERATE, PRO-PAY POLICY TERRY DUFFY
HAD WON ELECTION TO SUCCEED HUGH SCANLON AS HEAD OF
SECOND-LARGEST UNION AUEW. WITH LIKE-MINDED BASNETT
AT HELM OF THIRD-LARGEST GMWU, EVANS' ATTITUDE BECOMES
LESS CRITICAL.

8. ON THE BASIS OF THIS PROGNOSIS, THE OUTCOME COULD
WELL BE THE DEVELOPMENT OF AN ACCEPTABLE LIMIT BY THE

GOVERNMENT TO WHICH THE TUC WOULD NOT FORMALLY ADHERE. AS PHASE IV PROCEEDS, THE GOVERNMENT WOULD BE ABLE TO EVALUATE THE IMPACT OF ITS POLICY AND, AS IT DID THIS YEAR, EXERCISE ITS POWER WHERE IT CAN. THE TUC GENERAL COUNCIL WOULD AVOID HAVING TO TAKE ANY DECISION ON THE SUBSTANCE OF THE GOVERNMENT'S POLICY, BUT INSTEAD COULD FOLLOW THE COURSE IT HAS PURSUEE WITH SOME SUCCESS THIS YEAR -- TAKING A STANCE ON ANY PARTICULAR NEGOTIATIONS WHICH LOOKED LIKE POSING PROBLEMS. IN THIS WAY, THE GENERAL COUNCIL WOULD BE ABLE TO PROVIDE SUPPORT FOR THE GOVERNMENT (SHOULD IT WISH TO DO SO) BY REFUSING TO SUPPORT THOSE OF ITS MEMBERS WHO THREATENED TO ROCK THE BOAT. THOUGH THIS WORKED IN THE CURRENT ROUND WITH THE FIREMEN, IN THE FUTURE IT MAY BE LESS EFFECTIVE WITH SOME STRONGER GROUPS. NEVERTHELESS, IF SUCH COOPERATION IS ALL THAT IS AVAILABLE, THEN IT WILL NO DOUBT BE GRATEFULLY ACCEPTED BY THE GOVERNMENT.

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